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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2020 - * 060
Amendment No. (req. for Amendments *)

Filing by Cboe Exchange, Inc.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☑	☐	☐	☑	☐	☐

Pilot	Extension of Time Period for Commission Action *	Date Expires *
☐	☐	

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☐ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Proposed rule change to adopt related to futures cross (RFC) orders to permit VIX and SPX option orders that are part of exchange for related futures positions to execute on the Exchange without exposure.

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Laura Last Name * Dickman

Title * VP, Associate General Counsel

E-mail * ldickman@cboe.com

Telephone * (312) 786-7572 Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 07/01/2020

By Laura G. Dickman

(Name *)

(Title *)

VP, Associate General Counsel

ldickman@cboe.com

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information * Add Remove View	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

Item 1. Text of the Proposed Rule Change

(a) Cboe Exchange, Inc. (the "Exchange" or "Cboe Options") proposes to adopt Related Futures Cross ("RFC") Orders. The text of the proposed rule change is provided in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

(a) The Exchange's President (or designee) pursuant to delegated authority approved the proposed rule change on June 30, 2020.

(b) Please refer questions and comments on the proposed rule change to Pat Sexton, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7467, or Laura G. Dickman, (312) 786-7572, Cboe Exchange, Inc., 400 South LaSalle, Chicago, Illinois 60605.

Item 3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

The Exchange proposes to adopt RFC orders on a permanent basis. On the Exchange's trading floor, floor brokers execute crosses of option combos (*i.e.*, synthetic futures) on the trading floor on behalf of market participants who were exchanging futures contracts for related options positions. Market participants enter into these exchanges in order to swap related exposures. For instance, if a market participant has positions in VIX options but would prefer to hold a corresponding position in VIX futures (such as, for example, to reduce margin or risk related to the option positions), that market participant may swap its VIX options positions with another market

participant(s)'s VIX futures positions that have corresponding risk exposure.[1] The Exchange understands from customers that the need to reduce risk is prevalent in VIX and SPX, particularly when the markets are volatile, and that they often have corresponding futures that could make these exchanges possible. For example, Cboe Futures Exchange LLC ("CFE") permit these types of exchanges with respect to VIX futures pursuant to CFE Rule 414.[2]

A key element to these exchanges is that both of the option and future transactions must occur between the same market participants. When a floor broker represented the cross of the option contracts on the trading floor in accordance with applicable rules,[3] while in-crowd market participants had the opportunity to bid or offer to participate on the trade, those participants generally declined to participate upon hearing that the cross was part of an exchange of related futures contracts. While not required by the Rules, the Rules permit in-crowd market participants to decline to accept contracts that would otherwise be allocated to them.[4] The Exchange understands these market participants decline this allocation voluntarily, as they are aware of the need for market participants to execute these crosses cleanly for the transfer of risk between participants to be effective.[5] These are riskless

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1 The transaction between the market participants for the futures positions occurs in accordance with the rules of the applicable designated contract market that lists the futures. See, e.g., Cboe Futures Exchange LLC Rule 414.

2 Currently, CME, which lists futures that correspond to SPX options, does not offer similar exchange opportunities. If CME implements a rule to permit them, the proposed rule change will permit TPHs to similar use RFC orders to swap exposure with corresponding futures that transact pursuant to CME's rules.

3 See Rules 5.85 and 5.87.

4 See Rule 5.85(a)(2)(C)(iv).

5 Additionally, many market-makers in the crowd that decline their allocations in these crosses often similarly engage in these exchanges for similar purposes, so may similarly benefit from the ability to execute these clean crosses.

exchanges that carry no profit or loss for the market participants that are party to the transactions, but rather are intended to provide a seamless method for market participants to reduce margin and capital requirements while maintaining the same risk exposure within their portfolios.

From March 16 to June 12, 2020, the Exchange closed its trading floor in response to the coronavirus pandemic. During that time, the Exchange operated in an all-electronic configuration, which would have prevented market participants from executing these crosses. As a result, the Exchange adopted Rule 5.24(e)(1)(D) to permit Trading Permit Holders ("TPHs") to execute RFC orders while the trading floor was closed.[6] When the trading floor reopened on June 15, 2020, RFC orders were no longer available. However, the Exchange has received feedback from customers regarding the benefits of RFC orders, including the efficiency it provided with respect to the execution of these crosses. Therefore, the Exchange proposes to adopt RFC orders that can be executed electronically or in open outcry on a permanent basis.

The proposed rule change adds RFC orders to the list of complex order instructions in Rule 5.33(b)(5). For purposes of electronic trading, a "Related Futures Cross" or "RFC" order is an SPX or VIX complex order comprised of an option combo order coupled with a contra-side order or orders totaling an equal number of option combo orders. For purposes of open outcry trading, an RFC order is an SPX or VIX complex order comprised of an option combo that may execute against a contra-side RFC order or orders totaling an equal

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[6] Pursuant to current Rule 5.24(e)(1), RFC orders would be available until the earlier of the reopening of the trading floor or June 30, 2020. Because the proposed rule change proposes to adopt RFC orders on a permanent basis, the proposed rule change deletes the temporary RFC order rule in Rule 5.24(e)(1)(D).

number of option combo orders. An RFC order must be identified to the Exchange as being part of an exchange of option contracts for related futures positions.[7]

The proposed definition of RFC order for electronic trading purposes is identical to the current definition in Rule 5.24(e)(1)(D). The proposed definition of RFC order for open outcry trading is identical as well, except it contemplates RFC orders to be submitted as two separate orders rather than a paired order, as paired orders are currently unable to route to PAR for manual handling. This is merely a difference in form of submission – as two orders are submitted to the System in one order message for electronic and two orders are submitted to the System in separate messages for open outcry – but the criteria to be considered an RFC order and the terms of execution are the same for both. The Exchange notes that currently, if a TPH wants to execute a cross of options orders as part of an exchange for related futures positions, such cross occurs with two separate orders, so the proposed rule change is consistent with current practice on the trading floor, except it eliminates the need for exposure.

For purposes of the proposed RFC order instruction:

- An SPX or VIX option combo order is a two-legged order with one leg to purchase (sell) SPX or VIX calls and another leg to sell (purchase) the same number of SPX or VIX, respectively, puts with the same expiration date and strike price.[8]

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7 See current Rule 5.24(e)(1)(D).

8 See current Rule 5.24(e)(1)(D)(4).

- An exchange of option contracts for related futures positions is a transaction entered into by market participants seeking to swap option positions with related futures positions with related exposures.
    - A related futures position is a position in a futures contract with either the same underlying as or a high degree of price correlation to the underlying of the option combo in the RFC order so that execution of the option combos in the RFC order would serve as an appropriate hedge for the related future positions.
    - In an exchange of contracts for related positions, one party(ies) must be the buyer(s) of (or the holder(s) of the long market exposure associated with) the options positions and the seller(s) of corresponding futures contracts and the other party(ies) must be the seller(s) of (or holder(s) of the short market exposure associated with) the options positions and the buyer(s) of the corresponding futures contracts. The quantity of the option contracts executed as part of the RFC order must correlate to the quantity represented by the related futures position portion of the exchange.[9]

[9] See current Rule 5.24(e)(1)(D)(5).

The proposed rule change adopts Rule 5.33(m) to describe how RFC orders may execute. Specifically, proposed subparagraph (m)(1) states an RFC order will execute automatically on entry without exposure if:

- each option leg executes at a price that complies with Rule 5.33(f)(2),[10] provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book; and
- each option leg executes at a price at or between the national best bid or offer ("NBBO") for the applicable series; and
- the execution price is better than the price of any complex order resting in the complex order book ("COB"), unless the RFC order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order.

The System cancels an RFC order if it cannot execute.[11] This provision provides that RFC orders must execute in accordance with the same priority principles that apply to all

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[10] Rule 5.33(f)(2) requires complex orders, which would include an RFC order, which by definition contains two option legs, to execution only if the execution price: at a net price: (i) that would cause any component of the complex strategy to be executed at a price of zero; (ii) worse than the synthetic best bid or offer ("SBBO") or equal to the SBBO when there is a Priority Customer Order at the SBBO, except all-or-none complex orders may only execute at prices better than the SBBO; (iii) that would cause any component of the complex strategy to be executed at a price worse than the individual component prices on the Simple Book; (iv) worse than the price that would be available if the complex order Legged into the Simple Book; or (v) that would cause any component of the complex strategy to be executed at a price ahead of a Priority Customer Order on the Simple Book without improving the BBO of at least one component of the complex strategy.

[11] See current Rule 5.24(e)(1)(D)(1)(b) and (2).

other complex orders on the Exchange, with additional restrictions so that no leg may trade at the same price as a resting Priority Customer order, which protects Priority Customer orders in the simple book and COB and prohibits trades through prices available in the book.

Proposed paragraph (m) also provides the following:

- The execution of an RFC order must happen contemporaneously with the execution of the related futures position portion of the exchange.[12]
- An RFC order may only be entered in the standard increment applicable to the class pursuant to Rule 5.33(f)(1)(A).[13] Therefore, RFC

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12 See proposed Rule 5.33(m)(3); see also current Rule 5.24(e)(1)(D)(6). Current Rule 5.24(e)(1)(D)(6) provides that RFC orders may only execute during the Regular Trading Hours session. The purpose of that restriction was because the functionality was intended to temporarily replicate trading that only occurred on the trading floor, which is only available during Regular Trading Hours. With permanent availability of this order instruction, the Exchange believes it is appropriate to make electronic RFC orders available during the Global Trading Hours session as well. This will provide market participants with flexibility to execute these orders at more times, particularly given that futures may trade nearly 24 hours a day. See CFE trading hours, *available at* https://www.cboe.com/trading-resources/cfe-expiration-holiday-calendars.

13 See proposed Rule 5.33(m)(2). Rule 5.33(f)(1)(A) provides that the minimum increment for bids and offers on a complex order, and the increments at which components of a complex order may be executed, is set forth in Rule 5.4(b). Rule 5.4(b) states except as provided in Rule 5.33, the minimum increment for bids and offers on complex orders with any ratio equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) for equity and index options, and for Index Combo orders, is $0.01 or greater, which may be determined by the Exchange on a class-by-class basis, and the legs may be executed in $0.01 increments. The minimum increment for bids and offers on complex orders with any ratio less than one-to-three (.333) or greater than three-to-one (3.00) for equity and index options (except for Index Combo orders) is the standard increment for the class pursuant to paragraph (a), and the legs may be executed in the minimum increment applicable to the class pursuant to paragraph (a). Notwithstanding the foregoing, the minimum increment for bids and offers on

orders may only be submitted in the same increments as all other complex orders in VIX and SPX, as applicable.[14]

- The transaction involving the related futures position of the exchange must comply with all applicable rules of the designated contract market on which the futures are listed for trading.[15]
- Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of RFC orders.[16] An RFC order is intended to provide a seamless mechanism to execute crosses without exposure, so proposed change is appropriate.

As noted above, market participants execute crosses related to an exchange for related positions in open outcry on the Exchange's trading floor. While in-crowd market participants have the opportunity to bid or offer to participate on the trade, those participants generally decline to participate upon hearing that the cross was part of an exchange of related futures contracts. Therefore, in practice, the orders execute as clean crosses. To provide for a seamless experience in open outcry, the Exchange proposes to add RFC orders to the list of complex orders it may make available in open outcry.[17] RFC orders will execute in open outcry in a substantially similar manner as they do electronically.

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complex orders in options on the S&P 500 Index (SPX) or on the S&P 100 Index (OEX and XEO), except for box/roll spreads, is $0.05 or greater, or in any increment, which may be determined by the Exchange on a class-by-class basis.

14 See proposed Rule 5.33(m)(2); see also current Rule 5.24(e)(1)(D)(3).

15 See proposed Rule 5.33(m)(4); see also current Rule 5.24(e)(1)(D)(7).

16 See proposed Rule 5.33(m)(5); see also current Rule 5.24(e)(1)(D)(2).

17 See proposed Rule 5.83(b)(2).

Specifically, proposed Rule 5.85(i) provides that an RFC orders execute against each other without representation on the trading floor if:

- each option leg executes at a price that complies with Rule 5.85(b),[18] provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book;
- each option leg executes at a price at or between the NBBO for the applicable series; and
- the execution price is better than the price of a complex order resting in the COB, unless the RFC order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order.[19]

RFC orders may not be executed unless the above criteria are satisfied. These execution criteria are the same as the proposed criteria for execution of RFC order electronically as described above, except the proposed rule change references the complex order priority

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[18] Rule 5.85(b) provides that a complex order (1) with any ratio equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) or (2) that is an Index Combo order may be executed at a net debit or credit price without giving priority to equivalent bids (offers) in the individual series legs that are represented in the trading crowd or in the Book if the price of at least one leg of the order improves the corresponding bid (offer) of a Priority Customer order(s) in the Book by at least one minimum trading increment as set forth in Rule 5.4(b). A complex order with any ratio less than one-to-three (.333) and greater than three-to-one (3.00) (except for an Index Combo order) may be executed in open outcry on the trading floor at a net debit or credit price without giving priority to equivalent bids (offers) in the individual series legs that are represented in the trading crowd or in the Book if each leg of the order betters the corresponding bid (offer) of a Priority Customer order(s) in the Book on each leg by at least one minimum trading increment as set forth in Rule 5.4(b).

[19] See proposed Rule 5.85(i)(1).

applicable to open outcry trading rather than electronic trading. However, RFC orders, whether executed electronically or in open outcry may not trade, and may not have a leg trade, at the same price as a resting Priority Customer order.

Proposed Rule 5.85(i) adopts the following provision that correspond to criteria applicable to electronic RFC orders, as described above:

- An RFC order may only be entered in the standard increment applicable to the class pursuant to Rule 5.4(b).[20]
- The execution of an RFC order must happen contemporaneously with the execution of the related futures position portion of the exchange.[21]
- The transaction involving the related futures position of the exchange must comply with all applicable rules of the designated contract market on which the futures are listed for trading.[22]
- Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of RFC orders.[23]

Allowing TPHs, and particularly market-makers, to exchange synthetic futures (long (short) call, short (long) put – combos) for listed futures replicates an execution opportunity available in an open outcry environment market participants often use to obtain relief from the effect of the current exposure method ("CEM") on the options market. However, the proposed RFC order will provide market participants with opportunities to execute these

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20 See proposed Rule 5.85(i)(1)(2).

21 See proposed Rule 5.85(i)(1)(3).

22 See proposed Rule 5.85(i)(1)(4).

23 See proposed Rule 5.85(i)(1)(5).

necessary position reducing trades in VIX and SPX options in a more efficient and seamless manner, as it will not require exposure of these orders on the Exchange.

The Exchange believes there are multiple reasons that make the proposed rule change to make RFC orders available permanently is appropriate to maintain fair and orderly markets. First, existing margin models do not fully recognize similar risks present in VIX and SPX derivatives positions held by the Exchange's liquidity providing community. This results in an overestimation of risk causing Clearing TPHs to require out-sized margin deposits from their market-maker clients, which restricts the liquidity market-makers can provide to the markets. Second, because the Clearing TPHs carrying these positions are bank-owned broker/dealers they are subject to further bank regulatory capital requirements pursuant to CEM, which result in these additional punitive capital requirements being passed on to their market-maker clients.[24] Finally, market volatility, such as the recent extreme volatility experienced in the markets, can make providing liquidity in VIX and SPX options immensely more challenging. The execution of options trades independent of the underlying futures hedge introduces additional risk to these transactions, which further reduces available liquidity a liquidity provider may provide to the market. The combination of these factors negatively impacts the market-making community, which reduces liquidity available in the market. This is particularly true in an extremely volatile market, which is when the market needs this liquidity the most.

The Exchange believes the proposed rule change will allow liquidity providers to execute trades tied to the underlying future (i.e. "delta-neutral") in a substantially similar

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[24] See Letter from Cboe, New York Stock Exchange, and Nasdaq, Inc., to the Honorable Randal Quarles, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, March 18, 2020.

manner as they are currently only able to do on the trading floor, which the Exchange believes will considerably reduce the risk inherent in trying to maintain a hedged portfolio. The Exchange believes the proposed rule change will reduce existing inefficiencies in the execution of these risk-reducing trades and provide market participants with additional flexibility to execute them (either electronically or in open outcry). As a result, the Exchange believes the proposed rule change will provide an additional method for liquidity providers to free up much needed capital, which will benefit the entire market and all investors.

The proposed rule will require that the executing TPH identify these crosses as related to an exchange for related positions. As a result, the Exchange's Regulatory Division has put in place a regulatory review plan that will permit it to ensure any RFC orders that are executed are done in conjunction with an exchange of contract for related positions as required by the proposed rule.[25]

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.[26] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[27] requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles

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[25] This will be a continuation of the plan implemented in connection with the temporary RFC orders that were available when the trading floor was closed, which will apply to electronic and open outcry RFC orders.

[26] 15 U.S.C. 78f(b).

[27] 15 U.S.C. 78f(b)(5).

of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[28] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest. The proposed rule change will provide liquidity providers and other market participants with the ability to exchange SPX and VIX options positions with corresponding futures positions electronically in a substantially similar manner as are able to do on the trading floor was open. Additionally, the proposed rule change will enhance the process by which market participants are currently able to effect these exchanges on the trading floor. These exchanges allow market participants to reduce options positions in their hedged portfolios while maintaining the same risk exposure, which would reduce the necessary capital associated with those positions and permit them to provide more liquidity in the market. This additional liquidity may result in tighter spreads and more execution opportunities, which benefits all investors, particularly in the current volatile markets.

The Exchange believes that its proposal is also consistent with the Act in that it seeks to mitigate the potentially negative effects of the bank capital requirements on

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[28] Id.

liquidity in the VIX and SPX markets. As described above, current regulatory capital requirements could potentially impede efficient use of capital and undermine the critical liquidity role that Market-Makers and other liquidity providers play in the SPX and VIX options market by limiting the amount of capital Clearing TPHs ("CTPHs") allocate to clearing member transactions. Specifically, the rules may cause CTPHs to impose stricter position limits on their clearing members. In turn, this could force Market-Makers to reduce the size of their quotes and result in reduced liquidity in the market. The Exchange believes that permitting TPHs to reduce options positions in SPX and VIX options that will permit them to maintain a hedged portfolio would likely contribute to the availability of liquidity in the SPX and VIX options market and help ensure that these markets retain their competitive balance. The Exchange believes that the proposed rule would serve to protect investors by helping to ensure consistent continued depth of liquidity, particularly given current market conditions when liquidity is needed the most by investors. As noted above, the Exchange temporarily offered RFC orders in an all-electronic trading environment while the trading floor was closed. During that time, TPHs executed 869,800 VIX contracts as RFC orders. The Exchange estimates this equates to more than $80 million in capital that market participants were able to free up using RFC orders, which capital they then had available to put back into the market.

The Exchange also believes the proposed rule change is consistent with the Act, because the proposed procedure is consistent with transactions that are otherwise permitted on the trading floor. The proposed rule would provide an electronic mechanism to replicate a process used on the trading floor and enhance the current process used on the trading floor. The proposed rule change will protect Priority

Customer orders and orders on top of the book that comprise the BBO, as well as Priority Customer orders on the top of the COB. Additionally, the proposed rule change requires RFC orders to execute in the same increments as all other complex orders. While these crosses must currently be exposed on the trading floor, the Exchange observed that market participants generally deferred their allocations to permit a clean cross, as that is necessary for these transactions to achieve their intended effect. Because these orders were generally not broken up on the trading floor, and because the purpose of these trades is unrelated to profits and losses (making the price at which the transaction is executed relatively unimportant like competitive trades), the Exchange believes it is appropriate to not require exposure of these orders in an electronic or open outcry setting. The Exchange believes the proposed rule change, which is limited to two classes the Exchange believes are being significantly impacted by the inability to execute these crosses, and to option orders that qualify as combos tied to related futures positions, is narrowly tailored for the specific purpose of facilitating the ability of liquidity providers to reduce positions requiring significant capital as a result of current bank regulatory capital requirements and the current historic levels of market volatility. The Exchange believes the proposed rule change will protect investors by contributing to the continued depth of liquidity in the SPX and VIX options market.

Item 4. <u>Self-Regulatory Organization's Statement on Burden on Competition</u>

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition, RFC orders will be available to all market participants. As discussed above, while the proposed rule change is directed at market-

makers, all market participants may use these orders in the same manner as long as all criteria of the proposed rule are satisfied. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition, as it will apply only to products currently listed on the Exchange. Additionally, the proposed order is intended to accommodate riskless transactions for which parties are not seeking price improvement, but rather looking to swap risk exposure to free up capital that will permit those parties to continue to provide liquidity to the market, and thus is not intended to have a competitive impact.

Item 5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposed rule change.

Item 6. Extension of Time Period for Commission Action

The Exchange does not consent to an extension of the time period for Securities and Exchange Commission (the "Commission") action on the proposed rule change specified in Section 19(b)(2) of the Act.[29]

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

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[29] 15 U.S.C. 78s(b)(2).

(d) The proposed rule change is filed for accelerated effectiveness pursuant to Section 19(b)(2) of the Act.[30] The Exchange requests that the Commission approve the proposed rule change on an accelerated basis pursuant to Section 19(b)(2) of the Act so that it may be operative as soon as practicable. The Exchange believes the proposed rule change will protect investors and the public interest because it will provide liquidity providers and other market participants with an enhanced ability and flexibility to exchange SPX and VIX options positions with corresponding futures positions electronically in a substantially similar manner as they are able to do on the trading floor. These exchanges allow market participants to reduce options positions in their hedged portfolios while maintain the same risk exposure, which would reduce the necessary capital associated with those positions and permit them to provide more liquidity in the market. This additional liquidity may result in tighter spreads and more execution opportunities, which benefits all investors, particularly in the current volatile markets.

The proposed rule change may mitigate the potentially negative effects of the bank capital requirements on liquidity in the VIX and SPX markets. As described above, current regulatory capital requirements could potentially impede efficient use of capital and undermine the critical liquidity role that Market-Makers and other liquidity providers play in the SPX and VIX options market by limiting the amount of capital CPTHs allocate to clearing member transactions. In turn, this could force Market-Makers to reduce the size of their quotes and result in reduced liquidity in the market. The Exchange believes that permitting TPHs to reduce options positions in SPX and VIX options that will permit them to maintain a hedged portfolio would likely contribute to

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[30] 15 U.S.C. 78s(b)(2).

the availability of liquidity in the SPX and VIX options market and help ensure that these markets retain their competitive balance, which benefits all investors by helping to ensure consistent continued depth of liquidity, particularly in volatile market conditions when liquidity is needed the most by investors.

The proposed rule change merely provides an electronic mechanism that replicates a procedure that is currently available to market participants only on the trading floor and enhances the currently available procedure on the trading floor. While orders are currently required to be exposed on the trading floor, the Exchange observed that market participants generally deferred their allocations to permit a clean cross, as that is necessary for these transactions to achieve their intended effect. Because these orders were generally not broken up on the trading floor, and because the purpose of these trades is unrelated to profits and losses (making the price at which the transaction is executed relatively unimportant like competitive trades), the Exchange believes it is appropriate to not require exposure of these orders in an electronic or open outcry setting. This will provide for a more seamless and efficient execution of these exchanges (and mirrors the related futures portion of the exchanges). The Exchange believes the proposed rule change, which is limited to two classes the Exchange believes are being significantly impacted by the inability to execute these crosses, and to option orders that qualify as combos tied to related futures positions, is narrowly tailored for the specific purpose of facilitating the ability of liquidity providers to reduce positions requiring significant capital as a result of current bank regulatory capital requirements.

The proposed functionality is also similar to that used in connection with qualified contingent cross orders ("QCCs"), which similarly execute upon entry without

exposure.[31] The proposed rule change has similar price protections and increment restrictions as QCC orders, including the requirements that they may not execute at the same price (or may not have legs execute at the same price) as Priority Customer orders resting in the Simple Book or COB, as applicable. While QCC imposes a minimum size of 1,000 contracts, the proposed rule change imposes no minimum size for RFC orders. The purpose of RFC orders is significantly different than the purpose of QCCs, as QCCs are attempting to cross any option order tied to a stock trade, which would otherwise be subject to price improvement and competition. Therefore, a minimum size was appropriate to minimize the number of orders that received the benefit of execution without exposure. While RFC orders will obtain the same benefit of nonexposure, the purpose of these orders is to execute riskless transactions for which the market participants are relatively indifferent to the execution price, which eliminates the need for price discovery through exposure. Additionally, the proposed rule change restricts the options that can be submitted as RFC orders to those in two classes that comprise combos. The Exchange believes these restrictions narrowly tailor the proposed rule change, making a minimum size unnecessary. The Exchange also wants to ensure market participants have sufficient flexibility to effect these riskless transactions. The Exchange notes it has implemented other rules intended to assist liquidity providers to free up capital to allow them to continue to provide liquidity to the markets, which have no associated minimum size requirement.[32]

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[31] See Rule 5.6(c) (definition of QCC). At least one other options exchange offers QCC functionality on its trading floor, so on-floor unexposed crosses are also not novel. See Nasdaq PHLX LLC Options 8, Section 30(e).

[32] See, e.g., Rules 5.88 (describing compression forums for SPX options) and 6.8 (describing permissible off-floor risk-weighted asset transfers).

Given the ongoing coronavirus pandemic, which recently contributed to historic levels of volatility and continues to contribute to market volatility, the Exchange believes accelerated approval of the proposed rule change will provide market participants, particularly liquidity providers, with a more seamless way to execute these risk-reducing exchanges as soon as possible. This will permit these market participants to continue to provide liquidity to the VIX and SPX markets, which will benefit all market participants. As noted above, the electronic availability of RFC orders while the trading floor was open helped market participants free up significant capital which they could then use to add liquidity to the market during volatile times, when the market needed that liquidity the most.

Item 8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change is not based on a rule either of another self-regulatory organization or of the Commission.

Item 9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

Item 10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

Item 11. Exhibits

Exhibit 1. Completed Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 5. Proposed rule text.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34- ; File No. SR-CBOE-2020-060]

[Insert date]

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing of a Proposed Rule Change Relating to Adopt Related Futures Cross ("RFC") Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on [insert date], Cboe Exchange, Inc. (the "Exchange" or "Cboe Options") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

Cboe Exchange, Inc. (the "Exchange" or "Cboe Options") proposes to adopt Related Futures Cross ("RFC") Orders. The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange's website (http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to adopt RFC orders on a permanent basis. On the Exchange's trading floor, floor brokers execute crosses of option combos (*i.e.*, synthetic futures) on the trading floor on behalf of market participants who were exchanging futures contracts for related options positions. Market participants enter into these exchanges in order to swap related exposures. For instance, if a market participant has positions in VIX options but would prefer to hold a corresponding position in VIX futures (such as, for example, to reduce margin or risk related to the option positions), that market participant may swap its VIX options positions with another market participant(s)'s VIX futures positions that have corresponding risk exposure.[3] The Exchange understands from customers that the need to reduce risk is prevalent in VIX and SPX, particularly when the markets are volatile, and that they often have corresponding futures that could make these exchanges possible. For example, Cboe

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[3] The transaction between the market participants for the futures positions occurs in accordance with the rules of the applicable designated contract market that lists the futures. See, e.g., Cboe Futures Exchange LLC Rule 414.

Futures Exchange LLC ("CFE") permit these types of exchanges with respect to VIX futures pursuant to CFE Rule 414.[4]

A key element to these exchanges is that both of the option and future transactions must occur between the same market participants. When a floor broker represented the cross of the option contracts on the trading floor in accordance with applicable rules,[5] while in-crowd market participants had the opportunity to bid or offer to participate on the trade, those participants generally declined to participate upon hearing that the cross was part of an exchange of related futures contracts. While not required by the Rules, the Rules permit in-crowd market participants to decline to accept contracts that would otherwise be allocated to them.[6] The Exchange understands these market participants decline this allocation voluntarily, as they are aware of the need for market participants to execute these crosses cleanly for the transfer of risk between participants to be effective.[7] These are riskless exchanges that carry no profit or loss for the market participants that are party to the transactions, but rather are intended to provide a seamless method for market participants to reduce margin and capital requirements while maintaining the same risk exposure within their portfolios.

From March 16 to June 12, 2020, the Exchange closed its trading floor in response to the coronavirus pandemic. During that time, the Exchange operated in an all-electronic

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4 Currently, CME, which lists futures that correspond to SPX options, does not offer similar exchange opportunities. If CME implements a rule to permit them, the proposed rule change will permit TPHs to similar use RFC orders to swap exposure with corresponding futures that transact pursuant to CME's rules.

5 See Rules 5.85 and 5.87.

6 See Rule 5.85(a)(2)(C)(iv).

7 Additionally, many market-makers in the crowd that decline their allocations in these crosses often similarly engage in these exchanges for similar purposes, so may similarly benefit from the ability to execute these clean crosses.

configuration, which would have prevented market participants from executing these crosses. As a result, the Exchange adopted Rule 5.24(e)(1)(D) to permit Trading Permit Holders ("TPHs") to execute RFC orders while the trading floor was closed.[8] When the trading floor reopened on June 15, 2020, RFC orders were no longer available. However, the Exchange has received feedback from customers regarding the benefits of RFC orders, including the efficiency it provided with respect to the execution of these crosses. Therefore, the Exchange proposes to adopt RFC orders that can be executed electronically or in open outcry on a permanent basis.

The proposed rule change adds RFC orders to the list of complex order instructions in Rule 5.33(b)(5). For purposes of electronic trading, a "Related Futures Cross" or "RFC" order is an SPX or VIX complex order comprised of an option combo order coupled with a contra-side order or orders totaling an equal number of option combo orders. For purposes of open outcry trading, an RFC order is an SPX or VIX complex order comprised of an option combo that may execute against a contra-side RFC order or orders totaling an equal number of option combo orders. An RFC order must be identified to the Exchange as being part of an exchange of option contracts for related futures positions.[9]

The proposed definition of RFC order for electronic trading purposes is identical to the current definition in Rule 5.24(e)(1)(D). The proposed definition of RFC order for open outcry trading is identical as well, except it contemplates RFC orders to be submitted as two separate orders rather than a paired order, as paired orders are currently unable to route to

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8 Pursuant to current Rule 5.24(e)(1), RFC orders would be available until the earlier of the reopening of the trading floor or June 30, 2020. Because the proposed rule change proposes to adopt RFC orders on a permanent basis, the proposed rule change deletes the temporary RFC order rule in Rule 5.24(e)(1)(D).

9 See current Rule 5.24(e)(1)(D).

PAR for manual handling. This is merely a difference in form of submission – as two orders are submitted to the System in one order message for electronic and two orders are submitted to the System in separate messages for open outcry – but the criteria to be considered an RFC order and the terms of execution are the same for both. The Exchange notes that currently, if a TPH wants to execute a cross of options orders as part of an exchange for related futures positions, such cross occurs with two separate orders, so the proposed rule change is consistent with current practice on the trading floor, except it eliminates the need for exposure.

For purposes of the proposed RFC order instruction:

- An SPX or VIX option combo order is a two-legged order with one leg to purchase (sell) SPX or VIX calls and another leg to sell (purchase) the same number of SPX or VIX, respectively, puts with the same expiration date and strike price.[10]
- An exchange of option contracts for related futures positions is a transaction entered into by market participants seeking to swap option positions with related futures positions with related exposures.
    - A related futures position is a position in a futures contract with either the same underlying as or a high degree of price correlation to the underlying of the option combo in the RFC order so that execution of the option combos in the RFC order would serve as an appropriate hedge for the related future positions.

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[10] See current Rule 5.24(e)(1)(D)(4).

- In an exchange of contracts for related positions, one party(ies) must be the buyer(s) of (or the holder(s) of the long market exposure associated with) the options positions and the seller(s) of corresponding futures contracts and the other party(ies) must be the seller(s) of (or holder(s) of the short market exposure associated with) the options positions and the buyer(s) of the corresponding futures contracts. The quantity of the option contracts executed as part of the RFC order must correlate to the quantity represented by the related futures position portion of the exchange.[11]

The proposed rule change adopts Rule 5.33(m) to describe how RFC orders may execute. Specifically, proposed subparagraph (m)(1) states an RFC order will execute automatically on entry without exposure if:

- each option leg executes at a price that complies with Rule 5.33(f)(2),[12] provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book; and

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[11] See current Rule 5.24(e)(1)(D)(5).

[12] Rule 5.33(f)(2) requires complex orders, which would include an RFC order, which by definition contains two option legs, to execution only if the execution price: at a net price: (i) that would cause any component of the complex strategy to be executed at a price of zero; (ii) worse than the synthetic best bid or offer ("SBBO") or equal to the SBBO when there is a Priority Customer Order at the SBBO, except all-or-none complex orders may only execute at prices better than the SBBO; (iii) that would cause any component of the complex strategy to be executed at a price worse than the individual component prices on the Simple Book; (iv) worse than the price that would be available if the complex order Legged into the Simple Book; or (v) that would cause any component of the complex strategy to be executed at a price ahead of a Priority Customer Order on the Simple Book without improving the BBO of at least one component of the complex strategy.

- each option leg executes at a price at or between the national best bid or offer ("NBBO") for the applicable series; and
- the execution price is better than the price of any complex order resting in the complex order book ("COB"), unless the RFC order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order.

The System cancels an RFC order if it cannot execute.[13] This provision provides that RFC orders must execute in accordance with the same priority principles that apply to all other complex orders on the Exchange, with additional restrictions so that no leg may trade at the same price as a resting Priority Customer order, which protects Priority Customer orders in the simple book and COB and prohibits trades through prices available in the book.

Proposed paragraph (m) also provides the following:

- The execution of an RFC order must happen contemporaneously with the execution of the related futures position portion of the exchange.[14]

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13 See current Rule 5.24(e)(1)(D)(1)(b) and (2).

14 See proposed Rule 5.33(m)(3); see also current Rule 5.24(e)(1)(D)(6). Current Rule 5.24(e)(1)(D)(6) provides that RFC orders may only execute during the Regular Trading Hours session. The purpose of that restriction was because the functionality was intended to temporarily replicate trading that only occurred on the trading floor, which is only available during Regular Trading Hours. With permanent availability of this order instruction, the Exchange believes it is appropriate to make electronic RFC orders available during the Global Trading Hours session as well. This will provide market participants with flexibility to execute these orders at more times, particularly given that futures may trade nearly 24 hours a day. See CFE trading hours, *available at*

- An RFC order may only be entered in the standard increment applicable to the class pursuant to Rule 5.33(f)(1)(A).[15] Therefore, RFC orders may only be submitted in the same increments as all other complex orders in VIX and SPX, as applicable.[16]
- The transaction involving the related futures position of the exchange must comply with all applicable rules of the designated contract market on which the futures are listed for trading.[17]
- Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of RFC orders.[18] An RFC order is intended to provide a seamless mechanism to execute crosses without exposure, so proposed change is appropriate.

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https://www.cboe.com/trading-resources/cfe-expiration-holiday-calendars.

15 See proposed Rule 5.33(m)(2). Rule 5.33(f)(1)(A) provides that the minimum increment for bids and offers on a complex order, and the increments at which components of a complex order may be executed, is set forth in Rule 5.4(b). Rule 5.4(b) states except as provided in Rule 5.33, the minimum increment for bids and offers on complex orders with any ratio equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) for equity and index options, and for Index Combo orders, is $0.01 or greater, which may be determined by the Exchange on a class-by-class basis, and the legs may be executed in $0.01 increments. The minimum increment for bids and offers on complex orders with any ratio less than one-to-three (.333) or greater than three-to-one (3.00) for equity and index options (except for Index Combo orders) is the standard increment for the class pursuant to paragraph (a), and the legs may be executed in the minimum increment applicable to the class pursuant to paragraph (a). Notwithstanding the foregoing, the minimum increment for bids and offers on complex orders in options on the S&P 500 Index (SPX) or on the S&P 100 Index (OEX and XEO), except for box/roll spreads, is $0.05 or greater, or in any increment, which may be determined by the Exchange on a class-by-class basis.

16 See proposed Rule 5.33(m)(2); see also current Rule 5.24(e)(1)(D)(3).

17 See proposed Rule 5.33(m)(4); see also current Rule 5.24(e)(1)(D)(7).

18 See proposed Rule 5.33(m)(5); see also current Rule 5.24(e)(1)(D)(2).

As noted above, market participants execute crosses related to an exchange for related positions in open outcry on the Exchange's trading floor. While in-crowd market participants have the opportunity to bid or offer to participate on the trade, those participants generally decline to participate upon hearing that the cross was part of an exchange of related futures contracts. Therefore, in practice, the orders execute as clean crosses. To provide for a seamless experience in open outcry, the Exchange proposes to add RFC orders to the list of complex orders it may make available in open outcry.[19] RFC orders will execute in open outcry in a substantially similar manner as they do electronically. Specifically, proposed Rule 5.85(i) provides that an RFC orders execute against each other without representation on the trading floor if:

- each option leg executes at a price that complies with Rule 5.85(b),[20] provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book;
- each option leg executes at a price at or between the NBBO for the applicable series; and

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19 See proposed Rule 5.83(b)(2).

20 Rule 5.85(b) provides that a complex order (1) with any ratio equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) or (2) that is an Index Combo order may be executed at a net debit or credit price without giving priority to equivalent bids (offers) in the individual series legs that are represented in the trading crowd or in the Book if the price of at least one leg of the order improves the corresponding bid (offer) of a Priority Customer order(s) in the Book by at least one minimum trading increment as set forth in Rule 5.4(b). A complex order with any ratio less than one-to-three (.333) and greater than three-to-one (3.00) (except for an Index Combo order) may be executed in open outcry on the trading floor at a net debit or credit price without giving priority to equivalent bids (offers) in the individual series legs that are represented in the trading crowd or in the Book if each leg of the order betters the corresponding bid (offer) of a Priority Customer order(s) in the Book on each leg by at least one minimum trading increment as set forth in Rule 5.4(b).

- the execution price is better than the price of a complex order resting in the COB, unless the RFC order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order.[21]

RFC orders may not be executed unless the above criteria are satisfied. These execution criteria are the same as the proposed criteria for execution of RFC order electronically as described above, except the proposed rule change references the complex order priority applicable to open outcry trading rather than electronic trading. However, RFC orders, whether executed electronically or in open outcry may not trade, and may not have a leg trade, at the same price as a resting Priority Customer order.

Proposed Rule 5.85(i) adopts the following provision that correspond to criteria applicable to electronic RFC orders, as described above:

- An RFC order may only be entered in the standard increment applicable to the class pursuant to Rule 5.4(b).[22]
- The execution of an RFC order must happen contemporaneously with the execution of the related futures position portion of the exchange.[23]
- The transaction involving the related futures position of the exchange must comply with all applicable rules of the designated contract market on which the futures are listed for trading.[24]

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21 See proposed Rule 5.85(i)(1).

22 See proposed Rule 5.85(i)(1)(2).

23 See proposed Rule 5.85(i)(1)(3).

24 See proposed Rule 5.85(i)(1)(4).

- Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of RFC orders.[25]

Allowing TPHs, and particularly market-makers, to exchange synthetic futures (long (short) call, short (long) put – combos) for listed futures replicates an execution opportunity available in an open outcry environment market participants often use to obtain relief from the effect of the current exposure method ("CEM") on the options market. However, the proposed RFC order will provide market participants with opportunities to execute these necessary position reducing trades in VIX and SPX options in a more efficient and seamless manner, as it will not require exposure of these orders on the Exchange.

The Exchange believes there are multiple reasons that make the proposed rule change to make RFC orders available permanently is appropriate to maintain fair and orderly markets. First, existing margin models do not fully recognize similar risks present in VIX and SPX derivatives positions held by the Exchange's liquidity providing community. This results in an overestimation of risk causing Clearing TPHs to require out-sized margin deposits from their market-maker clients, which restricts the liquidity market-makers can provide to the markets. Second, because the Clearing TPHs carrying these positions are bank-owned broker/dealers they are subject to further bank regulatory capital requirements pursuant to CEM, which result in these additional punitive capital requirements being passed on to their market-maker clients.[26] Finally, market volatility, such as the recent extreme volatility experienced in the markets, can make providing liquidity in VIX and SPX options immensely more challenging. The execution of options trades independent of the

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[25] See proposed Rule 5.85(i)(1)(5).

[26] See Letter from Cboe, New York Stock Exchange, and Nasdaq, Inc., to the Honorable Randal Quarles, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, March 18, 2020.

underlying futures hedge introduces additional risk to these transactions, which further reduces available liquidity a liquidity provider may provide to the market. The combination of these factors negatively impacts the market-making community, which reduces liquidity available in the market. This is particularly true in an extremely volatile market, which is when the market needs this liquidity the most.

The Exchange believes the proposed rule change will allow liquidity providers to execute trades tied to the underlying future (i.e. "delta-neutral") in a substantially similar manner as they are currently only able to do on the trading floor, which the Exchange believes will considerably reduce the risk inherent in trying to maintain a hedged portfolio. The Exchange believes the proposed rule change will reduce existing inefficiencies in the execution of these risk-reducing trades and provide market participants with additional flexibility to execute them (either electronically or in open outcry). As a result, the Exchange believes the proposed rule change will provide an additional method for liquidity providers to free up much needed capital, which will benefit the entire market and all investors.

The proposed rule will require that the executing TPH identify these crosses as related to an exchange for related positions. As a result, the Exchange's Regulatory Division has put in place a regulatory review plan that will permit it to ensure any RFC orders that are executed are done in conjunction with an exchange of contract for related positions as required by the proposed rule.[27]

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[27] This will be a continuation of the plan implemented in connection with the temporary RFC orders that were available when the trading floor was closed, which will apply to electronic and open outcry RFC orders.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.[28] Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[29] requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)[30] requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest. The proposed rule change will provide liquidity providers and other market participants with the ability to exchange SPX and VIX options positions with corresponding futures positions electronically in a substantially similar manner as are able to do on the trading floor was open. Additionally, the proposed rule change will enhance the process by which market

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[28] 15 U.S.C. 78f(b).

[29] 15 U.S.C. 78f(b)(5).

[30] Id.

participants are currently able to effect these exchanges on the trading floor. These exchanges allow market participants to reduce options positions in their hedged portfolios while maintaining the same risk exposure, which would reduce the necessary capital associated with those positions and permit them to provide more liquidity in the market. This additional liquidity may result in tighter spreads and more execution opportunities, which benefits all investors, particularly in the current volatile markets.

The Exchange believes that its proposal is also consistent with the Act in that it seeks to mitigate the potentially negative effects of the bank capital requirements on liquidity in the VIX and SPX markets. As described above, current regulatory capital requirements could potentially impede efficient use of capital and undermine the critical liquidity role that Market-Makers and other liquidity providers play in the SPX and VIX options market by limiting the amount of capital Clearing TPHs ("CTPHs") allocate to clearing member transactions. Specifically, the rules may cause CTPHs to impose stricter position limits on their clearing members. In turn, this could force Market-Makers to reduce the size of their quotes and result in reduced liquidity in the market. The Exchange believes that permitting TPHs to reduce options positions in SPX and VIX options that will permit them to maintain a hedged portfolio would likely contribute to the availability of liquidity in the SPX and VIX options market and help ensure that these markets retain their competitive balance. The Exchange believes that the proposed rule would serve to protect investors by helping to ensure consistent continued depth of liquidity, particularly given current market conditions when liquidity is needed the most by investors. As noted above, the Exchange temporarily offered RFC orders in an all-electronic trading environment while the trading floor was closed. During that time,

TPHs executed 869,800 VIX contracts as RFC orders. The Exchange estimates this equates to more than $80 million in capital that market participants were able to free up using RFC orders, which capital they then had available to put back into the market.

The Exchange also believes the proposed rule change is consistent with the Act, because the proposed procedure is consistent with transactions that are otherwise permitted on the trading floor. The proposed rule would provide an electronic mechanism to replicate a process used on the trading floor and enhance the current process used on the trading floor. The proposed rule change will protect Priority Customer orders and orders on top of the book that comprise the BBO, as well as Priority Customer orders on the top of the COB. Additionally, the proposed rule change requires RFC orders to execute in the same increments as all other complex orders. While these crosses must currently be exposed on the trading floor, the Exchange observed that market participants generally deferred their allocations to permit a clean cross, as that is necessary for these transactions to achieve their intended effect. Because these orders were generally not broken up on the trading floor, and because the purpose of these trades is unrelated to profits and losses (making the price at which the transaction is executed relatively unimportant like competitive trades), the Exchange believes it is appropriate to not require exposure of these orders in an electronic or open outcry setting. The Exchange believes the proposed rule change, which is limited to two classes the Exchange believes are being significantly impacted by the inability to execute these crosses, and to option orders that qualify as combos tied to related futures positions, is narrowly tailored for the specific purpose of facilitating the ability of liquidity providers to reduce positions requiring significant capital as a result of current bank regulatory

capital requirements and the current historic levels of market volatility. The Exchange believes the proposed rule change will protect investors by contributing to the continued depth of liquidity in the SPX and VIX options market.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition, RFC orders will be available to all market participants. As discussed above, while the proposed rule change is directed at market-makers, all market participants may use these orders in the same manner as long as all criteria of the proposed rule are satisfied. The Exchange does not believe the proposed rule change will impose any burden on intermarket competition, as it will apply only to products currently listed on the Exchange. Additionally, the proposed order is intended to accommodate riskless transactions for which parties are not seeking price improvement, but rather looking to swap risk exposure to free up capital that will permit those parties to continue to provide liquidity to the market, and thus is not intended to have a competitive impact.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds

such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

A. by order approve or disapprove such proposed rule change, or

B. institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2020-060 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2020-060. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed

with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2020-060 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[31]

Secretary

[31] 17 CFR 200.30-3(a)(12).

EXHIBIT 5

(additions are underlined; deletions are [bracketed])

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Rules of Cboe Exchange, Inc.

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Rule 5.24. Disaster Recovery

(a) – (d) No change.

(e) *Loss of Trading Floor.* If the Exchange trading floor becomes inoperable, the Exchange will continue to operate in a screen-based only environment using a floorless configuration of the System that is operational while the trading floor facility is inoperable. The Exchange will operate using this configuration only until the Exchange's trading floor facility is operational. Open outcry trading will not be available in the event the trading floor becomes inoperable, except in accordance with paragraph (2) below and pursuant to Rule 5.26, as applicable.

(1) *Applicable Rules.* In the event that the trading floor becomes inoperable, trading will be conducted pursuant to all applicable System Rules, except that open outcry Rules will not be in force, including but not limited to the Rules (or applicable portions of the Rules) in Chapter 5, Section G, and as follows (subparagraphs (A) through (E) will be effective until June 30, 2020):

(A) No change.

(B) with respect to complex orders in any exclusively listed index option class:

(1) No change.

(2) notwithstanding the definition of "complex order" in Rule 1.1, for purposes of Rule 5.33, the term "complex order" means a complex order with any ratio equal to or greater than one-to-twenty-five (0.04) and equal to or less than twenty-five-to-one (25.00); and

(C) the contract volume a Market-Maker trades electronically during a time period in which the Exchange operates in a screen-based only environment will be excluded from determination of whether a Market-Maker executes more than 20% of its contract volume electronically in an appointed class during any calendar quarter, and thus is subject to the continuous electronic quoting obligation, as set forth in Rule 5.52(d)[; and].

[(D) a TPH may execute a "Related Futures Cross" or "RFC" order, which is comprised of an SPX or VIX option combo order coupled with a contra-side order or orders totaling an equal number of option combo orders, which is identified to the Exchange as being part of an exchange of option contracts for related futures positions. For purposes of RFC orders:

(1) In order to execute an RFC order:

(a) until the time when System functionality described in subparagraph (b) is available, a TPH may execute an RFC order without exposure on the Exchange by inputting the execution into the Exchange's Clearing Editor; and

(b) at the time when System functionality is available, a TPH must submit the RFC order to the System, which may execute automatically on entry without exposure.

(2) A TPH may execute an RFC order pursuant to subparagraph (1) above only if: (a) each option leg executes at a price that complies with Rule 5.33(f)(2), provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book; (b) each option leg executes at a price at or between the NBBO for the applicable series; and (c) the execution price is better than the price of any complex order resting in the COB, unless the RFC order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order. Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of RFC orders. The System cancels an RFC order if it cannot execute.

(3) An RFC order may only be entered in the standard increment applicable to the class under Rule 5.4(b).

(4) For purposes of this subparagraph (D), an SPX or VIX options combo order is a two-legged order with one leg to purchase (sell) SPX or VIX calls and another leg to sell (purchase) the same number of SPX or VIX, respectively, puts with the same expiration date and strike price.

(5) For purposes of this subparagraph (D), an exchange of option contracts for related futures positions is a transaction entered into by market participants seeking to swap option positions with related futures positions with related exposures.

(a) A related futures position is a position in a futures contract with either the same underlying as or a high degree of price correlation to the underlying of the option combo in the RFC order so that

execution of the option combos in the RFC order would serve as an appropriate hedge for the related future positions.

(b) In an exchange of contracts for related positions, one party(ies) must be the buyer(s) of (or the holder(s) of the long market exposure associated with) the options positions and the seller(s) of corresponding futures contracts and the other party(ies) must be the seller(s) of (or holder(s) of the short market exposure associated with) the options positions and the buyer(s) of the corresponding futures contracts. The quantity of the option contracts executed as part of the RFC order must correlate to the quantity represented by the related futures position portion of the exchange.

(6) An RFC order may be executed only during Regular Trading Hours and contemporaneously with the execution of the related futures position portion of the exchange.

(7) The transaction involving the related futures position of the exchange must comply with all applicable rules of the designated contract market on which the futures are listed for trading; and]

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Rule 5.33. Complex Orders

Trading of complex orders (as defined in Rule 1.1) is subject to all other Rules applicable to the trading of orders, unless otherwise provided in this Rule 5.33.

(a) No change.

(b) *Types of Complex Orders.* Complex orders are available in all classes listed for trading on the Exchange. Complex orders may be market or limit orders.

(1) – (4) No change.

(5) The System also accepts the following instructions for complex orders:

* * * * *

<u>Related Futures Cross or RFC</u>

<u>For purposes of electronic trading, a "Related Futures Cross" or "RFC" order is an SPX or VIX complex order comprised of an option combo order coupled with a contra-side order or orders totaling an equal number of option combo orders. For purposes of open outcry trading, an RFC order is an SPX or VIX complex order comprised of an option combo that may execute against a contra-side RFC order or orders totaling an equal number of option combo orders. An RFC order must be</u>

identified to the Exchange as being part of an exchange of option contracts for related futures positions. For purposes of this order instruction:

(A) An SPX or VIX option combo order is a two-legged order with one leg to purchase (sell) SPX or VIX calls and another leg to sell (purchase) the same number of SPX or VIX, respectively, puts with the same expiration date and strike price.

(B) An exchange of option contracts for related futures positions is a transaction entered into by market participants seeking to swap option positions with related futures positions with related exposures.

(i) A related futures position is a position in a futures contract with either the same underlying as or a high degree of price correlation to the underlying of the option combo in the RFC order so that execution of the option combos in the RFC order would serve as an appropriate hedge for the related future positions.

(ii) In an exchange of contracts for related positions, one party(ies) must be the buyer(s) of (or the holder(s) of the long market exposure associated with) the options positions and the seller(s) of corresponding futures contracts and the other party(ies) must be the seller(s) of (or holder(s) of the short market exposure associated with) the options positions and the buyer(s) of the corresponding futures contracts. The quantity of the option contracts executed as part of the RFC order must correlate to the quantity represented by the related futures position portion of the exchange.

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(m) *RFC Orders.*

(1) An RFC order executes automatically on entry without exposure if:

(A) each option leg executes at a price that complies with subparagraph (f)(2) above, provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book;

(B) each option leg executes at a price at or between the NBBO for the applicable series; and

(C) the execution price is better than the price of any complex order resting in the COB, unless the RFC order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order.

The System cancels an RFC order if it cannot execute.

(2) An RFC order may only be entered in the standard increment applicable to the class pursuant to subparagraph (f)(1)(A) above.

(3) The execution of an RFC order must happen contemporaneously with the execution of the related futures position portion of the exchange.

(4) The transaction involving the related futures position of the exchange must comply with all applicable rules of the designated contract market on which the futures are listed for trading.

(5) Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of RFC orders.

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Rule 5.83. Availability of Orders

(a) No change.

(b) *Complex Orders.* The Exchange may make complex orders, including security future-option orders, and stock-option orders available for PAR routing for manual handling. Other than Index Combo orders, which may be submitted for electronic and open outcry handling, a complex order with a ratio less than one-to-three (.333) or greater than three-to-one (3.00) may only be submitted for manual handling and open outcry trading. The Exchange may make the follow complex order types available for PAR routing for manual handling (and open outcry trading):

(1) No change.

(2) *Order Instructions:* AON, Attributable, Complex Only, Index Combo, MTP Modifier, Multi-Class Spread, Non-Attributable, Not Held, RFC, RTH Only, SPX Combo, and stock-option order.

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Rule 5.85. Order and Quote Allocation, Priority, and Execution

(a) – (h) No change.

(i) *RFC Orders.*

(1) RFC orders execute against each other without representation on the trading floor if:

(A) each option leg executes at a price that complies paragraph (b) above, provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book;

(B) each option leg executes at a price at or between the NBBO for the applicable series; and

(C) the execution price is better than the price of a complex order resting in the COB, unless the RFC order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order.

RFC orders may not be executed unless the above criteria are satisfied.

(2) An RFC order may only be entered in the standard increment applicable to the class pursuant to Rule 5.4(b).

(3) The execution of an RFC order must happen contemporaneously with the execution of the related futures position portion of the exchange.

(4) The transaction involving the related futures position of the exchange must comply with all applicable rules of the designated contract market on which the futures are listed for trading.

(5) Rule 5.9 (related to exposure of orders on the Exchange) does not apply to executions of RFC orders.

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